



DEPARTMENT OF THE AIR FORCE
WASHINGTON DC

Office of the Assistant Secretary

16 OCT 2003

SAF/IEI
1665 Air Force Pentagon
Washington, DC 20330-1665

The Honorable Duncan Hunter
Chairman, Committee on Armed Services
United States House of Representatives
Washington, DC 20515-6035

Dear Mr. Chairman

Title 10 USC 2825 permits the Air Force to construct replacement military family housing (MFH) units in lieu of improving existing units. We intend to substitute an improvement construction project for the fiscal year 2002 at Grand Forks AFB, for a replacement project within the programmed amount (PA) of \$17.609M.

During the update of the Housing Community Profile (HCP), the revised cost estimates to renovate the units at Grand Forks proved to be more economical to replace these units rather than improve them. The estimated cost per square foot to renovate the units is \$72 and the cost per square foot to replace the units is \$70. Based on the new HCP, the total estimated cost to renovate the 181 units is now \$38.9M with the cost per unit ranging from \$229,670 to \$255,409. The estimated cost to replace 181 units is \$34.9M with the cost per unit ranging from \$188,177 to \$219,087. If we must award the improvement project within the PA, the project would have to be down scoped to 61 units (66 percent scope reduction) and to award the replacement project, the project would have to be down scoped to 67 units (63 percent scope reduction). Grand Forks has just obtained bid results and can only replace 61 units within the PA of \$17.494M. The reduction from 67 units to 61 units is necessary to cover the costs for demolition of 67 units, and site improvement such as underground utilities, improve parking, patios, privacy fencing and community improvements.

A similar letter has been sent to the Ranking Minority Member of this Committee and to the Chairman and the Ranking Minority Members of the Subcommittee on Military Installations and Facilities and the Senate Armed Services Committee.

Sincerely

FRED W. KUHN
Deputy Assistant Secretary of the Air Force
(Installations)

Attachments:

1. Congressional Notification for Project Substitution
2. EA Executive Summary

DoD EXECUTIVE SUMMARY

LOCATION/MAJCOM: Grand Forks AFB, North Dakota/AMC

PROJECT TITLE: Improve Family Housing

PROJECT NUMBER: JFSD990076

OBJECTIVE: Provide housing for military families, conforming to Air Force standards, be cost effective to the Government and have the least negative impact on families.

PROJECT COST / SCOPE: \$17,609,000/181 units

ALTERNATIVES EXAMINED:

	<u>Net Present Value</u>	<u>Benefit Score</u>	<u>Cost/Benefit Ratio</u>
1. Status Quo	\$14,535,220	7.30	\$1,991,126
2. Improvement	\$37,779,129	16.30	\$2,317,738
3. Replacement	\$40,875,415	19.90	\$2,054,041
4. Direct Compensation	\$30,209,126	6.0	\$5,034,854
5. Government Leasing	N/A	N/A	N/A

ANALYSIS METHOD:

All alternatives were examined using standard Air Force and DoD Economic Analysis techniques and procedures. This examination conforms to generally accepted cost analysis principles as specified in AFI 65-501 and AFMAN 32-1089.

CONCLUSION:

Alternative 3, Replacement of existing enlisted grade housing is the recommended alternative. Status Quo is the least costly alternative, however it is unacceptable because it does not repair the deteriorating structures and would force the Air Force personnel to continue to live in inadequate housing. The direct compensation alternative has a lower NPV, but rates low considering the results of the cost/benefit ratio calculation for these alternatives. The leasing alternative is not considered because of the non-availability of affordable housing in the local area. A Cost/Benefit analysis indicates that the Replacement alternative is the most cost effective choice. The improvement/replacement initial cost ratio is 92% and there is no prevailing justification to retain the existing units. The sensitivity analysis conducted on the discount rate was varied (+/-) 25%. The ranking of the alternatives remained the same (1-2-3). The sensitivity analysis conducted on cost was varied (+/-) 25%. If the Replacement project cost decreased by 7.09%, the Replacement alternative would have a lower NPV than the Improvement alternative.

**CONGRESSIONAL NOTIFICATION
FOR SUBSTITUTION OF FY02 GRAND FORKS AFB
IMPROVEMENT PROJECT WITH REPLACEMENT CONSTRUCTION**

INSTALLATION:

Grand Forks AFB, ND

PROJECT:

Improve Family Housing

AUTHORIZATION:

Fiscal Year 2002: Public Law 107-107

ESTIMATED COST:

Previously Appropriated	\$	0
Previously Reprogrammed	\$	0
Total Estimated cost		\$17,609,000

DESCRIPTION:

Project will demolish 67 family housing units that were built in the 1950s and rebuild 61 units meeting current Air Force standards. This project includes upgrade of utility systems, driveways, landscaping and community areas. To keep the total estimated cost within the FY02 improvement project's appropriated amount, as required by 10 USC 2825, the scope will be reduced from 181 to 61 units. The remaining requirement will be programmed in an out year program.

JUSTIFICATION:

During the project's technical design it was determined that is more cost effective to replace these units rather than improve them. Constraints of the existing buildings and the sites as well as the extensive renovations and additions required in this improvement project make the project costly. The bids for the improvement project were 103% percent of the replacement cost estimate, which includes demolition of existing buildings and site preparation for new construction. An economic analysis has been performed comparing the alternatives; new construction, renovation improvement, replacement and status quo. The recommended option is replacement and was determined to be most cost effective solution that provides updated and energy efficient housing sized to the statutory limitation.

SOURCE OF FUNDS:

No additional funds are required for this action. The replacement project will use funds appropriated for the improvement project.